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ASEAN Prospects for NIC Status

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Abstract

This paper attempts, first, to give an overview of the economic development of Indonesia, Malaysia, the Philippines, and Thailand in the postwar period (especially since the 1960s) from both macro and industry levels and, then, to investigate their prospects of attaining the status of NICs (Newly Industrializing Countries) in the near future. The latter topic is discussed in the light of the concepts of NICs employed by OECD [1979] and B. Balassa [1981]. A brief outlook is given for the Thai economy, as Thailand is regarded as the most typical near-NIC among these four.

I Introduction

The purpose of this paper is to give an overview of the economic development of Indonesia, Malaysia, the Philippines, and Thailand in the postwar period (especially since the 1960s) from both macro and industry levels, and to investigate their prospects of attaining the status of NICs (Newly Industrializing Countries) in the near future. These four countries are members of ASEAN (Association of South-East Asian Nations), which was founded in 1967, and so will be called "ASEAN4" throughout this paper.¹⁾ The term "NICs" is used here rather than the term "NIEs (Newly Industrializ-

ing Economies)" to maintain consistency with OECD [1979; 1988], but "NICs" should be replaced by "NIEs" in referring to Taiwan and Hong Kong.

As a methodology for analyzing the economic development of ASEAN4, I shall employ the theory of dualistic development.²⁾ By this theory, economic development in each of the ASEAN4 countries is understood as the process in which the center of gravity of growth shifts from primary sectors (particularly agriculture) to non-primary ones (particularly manufacturing or industry). Here, the industrial sector is considered as the leading sector for development.³⁾ Its growth leads the growth of

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1) The two remaining member countries of ASEAN, i.e., Singapore and Brunei, are not considered here, because the former already belongs to the group of NICs and the latter, which joined ASEAN in 1984, is a very small country with a population of only 230,000 people (but with an income of more than 15,000 US dollars due to oil).

2) See Lewis [1954], Jorgenson [1961], Fei and Ranis [1964], etc. for the theory of dualistic development. See Yasuba [1980: Ch. 5] and Watanabe [1986] for the dualistic analyses of Japanese and Asian development, respectively.

3) Riddle [1986], for example, emphasizes service-led growth, but the possibility of the service sector becoming a dynamic engine for development seems to be small since most of its products are non-tradables and its technological

the whole economy but must be supported by a corresponding expansion in exports. This is because industrial development requires imports of industrial raw materials and capital goods and, in general, exportation makes importation possible.

Exportation, which supports the growth and development of the whole economy including the industrial sector, may be made either by the industrial sector itself (i.e., exports of manufactured goods) or by the primary sector (i.e., exports of primary commodities). The Asian NICs (Korea, Taiwan, Hong Kong, and Singapore), which are poor in natural resources, all pursued outward-looking, export-oriented industrialization from the beginning, and achieved rapid development due to a favorable expansionary circle of exports and investment, which may be schematized as follows: exports of manufactured goods → imports of intermediate and capital goods → investment → productivity increase → (import substitution) → exports.⁴⁾

On the other hand, ASEAN4 countries are rich in natural resources and their industrialization depends to varying extents on the exportation of primary commodities. However, with the steady decline in prices of primary commodities, including oil, from the beginning of the 1980s, these countries are now facing the crucial problem in their drive toward industrialization of how to reduce their dependence on primary exports, on the one hand, and how to realize the expansionary circle of manufacturing

exports and investment, on the other.⁵⁾

Economic development of ASEAN4 by decade since the 1960s may be characterized generally as follows from the point of view of industrialization: "import substitution" in the 1960s, "import substitution and export orientation" in the 1970s, and "structural adjustments" in the 1980s. This characterization describes the average path of development or industrialization, and each of the four countries does, of course, deviate to some extent from the average path. For example, the import-substitution phase began as early as in the 1950s in the Philippines. The phase of import substitution and/or export orientation came a decade later than average in Indonesia. Furthermore, structural adjustments are quite different in substance between the four countries.

The most important characteristic of each economy in relation to its development over these decades can be expressed in the following key words: "oil" for Indonesia, the "New Economic Policy (NEP)" for Malaysia, "debt crisis" for the Philippines, and "stable growth led by the private sector" for Thailand. "Oil" means Indonesia's heavy dependence on petroleum in the past and its recent efforts to overcome this dependence. "NEP" means Malaysia's pursuit for equity through the *bumiputra* policy, probably at the cost of efficiency in the short-run. "Debt crisis" symbolizes an economic malfunction.

↘ dynamism is not so strong as in the industrial sector. See Yoshihara [1988: Ch. 5] for the importance of technology and trade in economic development.

4) See Watanabe [1989: Ch. 4] for the details of this mechanism.

5) Ichimura [1988] classifies Asian countries into five types in terms of economic development: (1) resource-poor NICs, (2) resource-rich ASEAN4, (3) agricultural South Asia, (4) gigantic China and India, and (5) socialist countries; and he proposes different development strategies for the different types of economies. The analysis herein is similar to the strategy proposed for the resource-rich ASEAN4.

tion in the Philippines which led to the collapse of the national economy at the end of the Marcos period. "Stable growth led by the private sector" indicates balanced economic management and moderate but steady growth in Thailand.

Section II of this paper reviews briefly the economic levels, growth performance, structural changes, and commodity problems of the ASEAN4 countries based on Tables 1, 2, 3 and 4 and Fig. 1. Section III discusses in some detail the prospects of ASEAN4 of becoming NICs, based mainly on tables 5 and 6. Finally, Section IV gives briefly the outlook for the Thai

economy, as Thailand is regarded as the most typical near-NIC among the ASEAN4 countries.

II An Overview of the Development of ASEAN4 Countries

Table 1 summarizes such basic indicators as population, area, GDP, and so on for the ASEAN4 countries, Japan, and the United States in comparable terms. The table shows that, as of 1988, the total economic size of ASEAN4 in terms of GDP is only 4% of that of USA (7% of Japan), while the average income in terms of per capita GDP is also only 4% of that

Table 1 Basic Indicators of ASEAN4

	Indonesia	Malaysia	Philippines	Thailand	(Total)	Japan	USA
Area [1,000 km ²]	1,919 (20)	330 (4)	300 (3)	514 (5)	3,063 (33)	372 (4)	9,363 (100)
Population (mid-1988) [millions]	175.6 (71)	16.9 (7)	58.7 (24)	54.6 (22)	305.8 (124)	122.6 (50)	246.3 (100)
GDP (1988) [billion US\$]	80.6 (2)	33.2 (1)	38.7 (1)	58.1 (1)	210.6 (4)	2,890.2 (60)	4,847.3 (100)
Per capita GDP (1988) [US\$]	459 (2)	1,962 (10)	660 (3)	1,065 (5)	689 (4)	23,572 (120)	19,678 (100)
Exchange rate (1985)	1,125.0 [Rp/US\$]	2.480 [M\$/US\$]	18.700 [P/US\$]	27.159 [B/US\$]	—	238.54 [¥/US\$]	—
Purchasing power parity (1985)	361.0# [Rp/I\$]	1.196 [M\$/I\$]	6.549 [P/I\$]	8.753 [B/I\$]	—	230.36 [¥/I\$]	1.0 [US\$/I\$]
Deviation rate (PPP/ER)	.3209	.4822	.3502	.3223	—	.9657	1.0
GDP (1985) [billion US\$]	84.0 (2)	31.3 (1)	32.8 (1)	38.3 (1)	186.4 (5)	1,325.2 (33)	3,970.5 (100)
GDP (1985) [billion I\$]	261.7# (7)	64.8 (2)	93.6 (2)	119.0 (3)	539.1 (14)	1,372.3 (35)	3,970.5 (100)
Per capita GDP (1985) [US\$]	509 (3)	1,953 (12)	599 (4)	745 (5)	649 (4)	10,973 (67)	16,057 (100)
Per capita GDP (1985) [I\$]	1,585# (10)	4,050 (25)	1,710 (11)	2,310 (14)	1,877 (12)	11,176 (70)	16,057 (100)

Notes: I\$ means 'international dollar'. It is a theoretical measuring unit to be used in the multi-country comparisons of purchasing power parity (PPP) and its conversion rate with US\$ is one (1.0). PPP-related data are derived from the PC diskettes which correspond to Tables 1 and 2 in Summers and Heston [1988]. Figures marked with # for Indonesia are estimated approximately by the author based on the PPP data for 1980 compiled by the UN Commission of the European Communities (See UNCEC [1986] or Kurabayashi and Sakuma [1990]) as well as on the GDP deflators of Indonesia and USA.

of USA (3% of Japan). This low level of ASEAN4 as compared with the United States or Japan is partly due to the exchange rate used in international comparison. The table also shows the rates of deviation between exchange rates and purchasing power parities for ASEAN4, which indicate a huge undervaluation of the exchange rate vis-a-vis the purchasing power parity (i.e., from 68% for Indonesia to 52% for Malaysia). When the comparison is made based on the purchasing power parity, the total GDP of ASEAN4 increases significantly (almost three times) as shown in the lower part of Table 1, exceeding the total GDP of Asian NICs by 60% (but 5% less based on the exchange rate conversion).⁶⁾ Average per capita GDP of ASEAN4, however, is only 12% of USA, indicating still a large income gap in spite of the upward revaluation of income by three times based on the purchasing power parity.⁷⁾

Table 2 summarizes in comparable terms the average growth rates of GDP and its components for each decade for ASEAN4 and other selected countries or groups of countries. Three major facts concerning the growth performance of ASEAN4 emerge from the table. First, the 1970s was a period of high growth, while the 1980s (at least until the middle of the

6) Data for Asian NICs were also obtained from the PC diskettes of Summers and Heston [1988].

7) The income disparity between countries of this size may not be surprising if we consider the domestic income disparity between poor and rich households. Average income of the top 10 percent is approximately five times that of the bottom 20 percent in Japan (1979), eleven times in the United States (1985), eight times in Malaysia (1987), and six times in both Indonesia (1987, expenditure) and the Philippines (1985, expenditure). Calculation here is based on World Bank, *World Development Report 1990*, Table 30.

Table 2 Growth Performance of ASEAN4 (Average Annual Rates of Growth, %)

	GDP			Agriculture			Industry			Manufacturing			Services			Population		
	1960 -70	1970 -80	1980 -88	1960 -70	1970 -80	1980 -88	1960 -70	1970 -80	1980 -88	1960 -70	1970 -80	1980 -88	1960 -70	1970 -80	1980 -88	1965 -80	1980 -88	
Indonesia	3.9	7.6	5.1	2.7	3.8	3.1	5.2	11.1	5.1	3.3	12.8	13.1	4.8	9.2	6.4	2.3	2.1	
Malaysia	6.5	7.8	4.6	—	5.1	3.7	—	9.7	6.1	—	11.8	7.3	—	8.2	3.6	2.5	2.6	
Philippines	5.1	6.3	0.1	4.3	4.9	1.8	6.0	8.7	-1.8	6.7	7.2	-0.3	5.2	5.4	0.7	2.9	2.5	
Thailand	8.4	7.2	6.0	5.6	4.7	3.7	11.9	10.0	6.6	11.4	10.6	6.8	9.1	7.3	6.8	2.7	1.9	
Japan	10.9	5.0	3.9	4.0	1.1	0.8	10.9	5.5	4.9	11.0	6.4	6.7	11.7	5.5	3.1	1.2	0.6	
U.S.A.	4.3	3.0	3.3	0.3	1.2	3.2	4.9	1.2	2.9	5.3	2.9	3.9	4.2	3.2	3.3	1.0	1.0	
Low-income e.	4.4	3.5	2.0	2.5	2.2	2.3	7.0	3.2	1.7	6.5	3.6	5.9	4.2	4.5	3.4	2.7	2.8	
China & India	4.5	4.9	8.7	1.8	2.6	5.4	8.3	6.6	11.4	—	—	10.5	3.9	4.5	8.6	2.2	1.6	
Mid-income e.	5.9	5.6	2.9	3.5	2.9	2.7	7.4	6.6	3.2	6.8	6.4	3.8	5.4	5.9	3.1	2.4	2.2	
Industrial e.	5.2	3.2	2.8	1.4	1.4	2.3	5.9	3.1	1.9	5.9	3.2	3.2	4.8	3.5	3.0	0.8	0.7	

Notes: Data source is *World Development Report* of World Bank, i.e., the 1982 issue for 1960-70 and 1970-80, and the 1990 issue for 1980-88. 'Industry' consists of mining, manufacturing, construction, and electricity, gas and water. 'Low-income economies' here do not include China and India.

decade) was a period of stagnation or low growth. This is also generally true for the other countries. Second, all the countries in ASEAN4 showed much better growth performance in the 1970s than any of the other countries or groups. This rapid growth was led by the industrial sector, especially the manufacturing industry. Third, the performances of the four countries diverged in the 1980s. The Philippines dropped behind the rest of the group due mainly to political turmoils and debt crisis. The remaining three all suffered from recession in the industrialized countries in the early 1980s as well as from stagnation in primary commodity prices almost throughout the decade, but still maintained better performance than most of the other countries and groups.⁸⁾

The ASEAN4 countries (except for Indonesia) changed their industrialization strategy from 'import substitution' to 'export promotion' (plus import substitution) around 1970.⁹⁾ In Malaysia, the Philippines and Thailand, this change was given momentum by legislation to promote exports, including acts covering investment incentives, export incentives, and export processing zones, in the period from 1967 to 1972. Indonesia also introduced similar acts from 1967 to 1970 but mainly for the purpose of import substitution. In Indonesia, export promotion began to be stressed only after the sharp decline in oil price of March 1983.

As Table 3 shows, the manufacturing industry increased its share in GDP steadily from 1970 to 1988 (or 1987) in each of the ASEAN4

countries due to rapid growth, especially in the 1970s. The share of manufactured goods (SITC 5-9) in exports also increased steadily and rapidly in all of the four countries (though mostly in the 1980s in the case of Indonesia). The Philippines' achievement seems to be a little misleading because of the unusually high share of SITC 9, most of which consists of production by consignment with a limited amount of net foreign exchange earnings.¹⁰⁾ The employment structure seems to be a problem in that the share of manufacturing in total employment is still very low compared with the share in total production (GDP), indicating the low absorptive capacity of the sector in most cases.

Table 3 also indicates that ASEAN4 still depends heavily on the exports of primary commodities (SITC 0 to 4 including processed food),¹¹⁾ though the Philippines can probably be regarded as an exception. Furthermore, the share of exports in GDP on the expenditure side is remarkably high in Malaysia and fairly high in Thailand, so that prices of primary commodities are expected to have had significant effects on economic growth in the ASEAN4 countries other than the Philippines. This can be confirmed by Fig. 1, which shows fairly strong correlations between GDP growth and changes in primary commodity prices. Malaysia's correlation is steady and strong as is

8) Countries with GDP growth rate exceeding 6.0% (Thailand) for 1980-88 include China (10.3%), Pakistan (6.5%), Yemen (6.5%), Korea (9.9%), Oman (12.7%), and Hong Kong (7.3%).

9) See, for example, Yamazawa and Hirata [1987] for details.

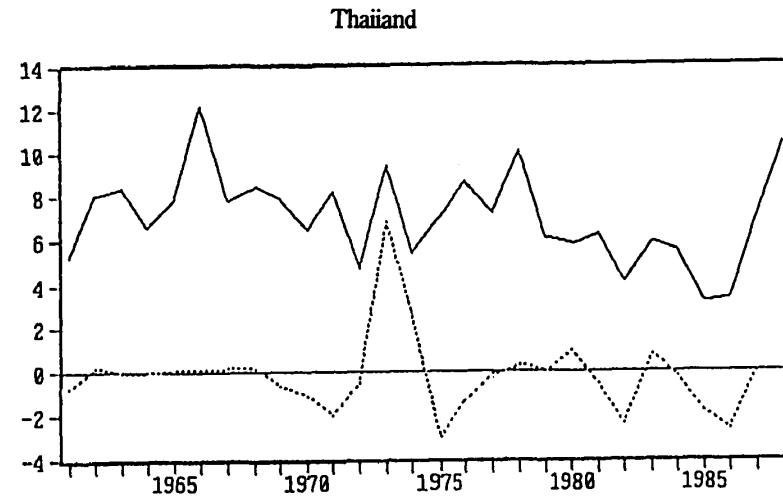
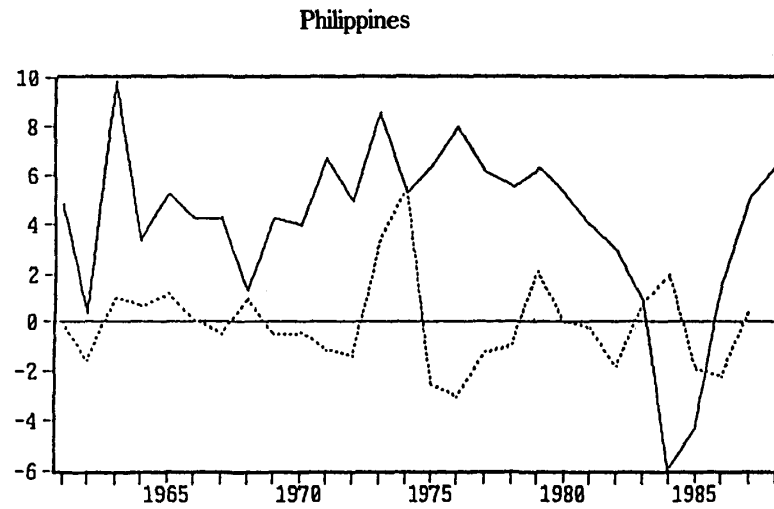
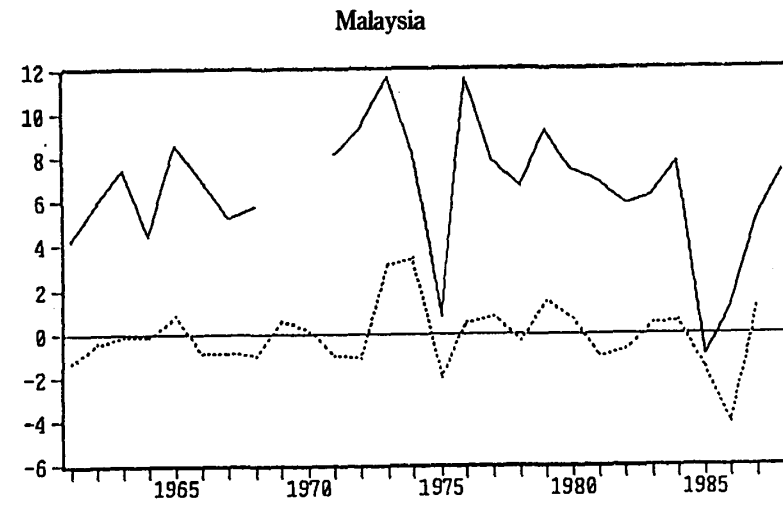
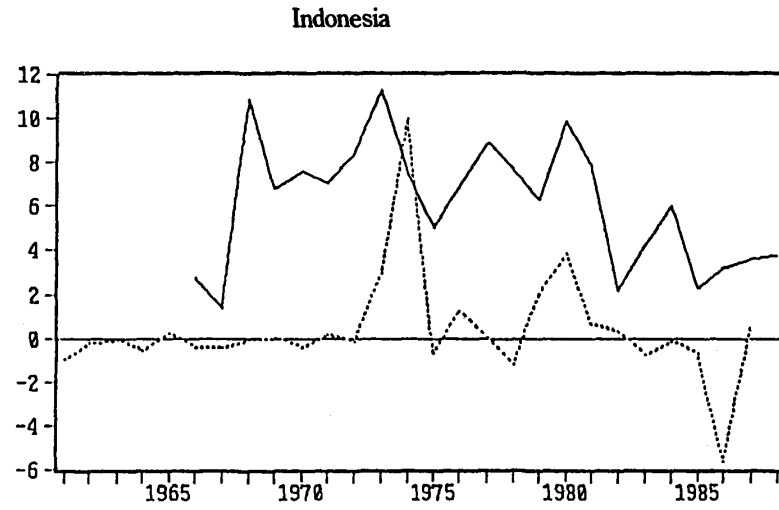
10) Such a production process is also limited in its linkages with other domestic industries and the extent of technology transfer. Malaysia faces more or less the same problem.

11) Note that exports of tin or copper ores and concentrates are classified as SITC 28 but those of their products as SITC 68. Most of the SITC 68 in ASEAN4 may be regarded as primary commodity exports.

Table 3 Structural Changes of ASEAN4 (Over Time Changes in Shares, %)

	Indonesia			Malaysia			Philippines			Thailand		
	1970	1980	1987	1970	1980	1988	1970	1980	1988	1970	1980	1988
GDP (nominal)												
Agriculture	47	25	26	32	23	21	28	23	23	28	25	17
Industry	18	43	33	25	36	40	30	37	34	25	29	35
Mining	5	26	13	6	10	10	3	3	2	2	2	3
Manufacturing	9	12	14	12	20	24	23	24	25	16	20	24
Services	35	32	41	43	41	39	43	40	44	46	46	48
Employment												
Agriculture		56	54	53	37	31	54	51	46		71	64
Mining		1	1	3	1	1	—	1	1		0	0
Manufacturing		9	9	9	16	16	12	11	10		8	8
Others		34	36	35	46	52	34	37	43		21	28
Exports (f.o.b.)						(1987)						
SITC 0-2, 4	62	22	23	66	47	38	85	60	31	77	76	42
SITC 3	31	74	50	7	24	20	2	1	2	0	1	1
SITC 5-8	2	4	25	26	28	42	9	24	37	16	20	57
(SITC 7)	(0)	(1)	(1)	(2)	(11)	(26)	(0)	(2)	(10)	(0)	(6)	(16)
SITC 9	5	0	2	1	1	1	4	16	30	7	4	1
Imports (c.i.f.)						(1987)			(1987)			
SITC 0-2, 4	14	17	14	29	16	15	16	12	13	10	10	12
SITC 3	1	16	10	12	15	7	11	28	19	9	31	7
SITC 5-8	73	67	75	58	68	77	69	49	47	77	55	78
(SITC 7)	(30)	(34)	(39)	(28)	(39)	(45)	(34)	(24)	(17)	(35)	(23)	(40)
SITC 9	11	0	1	1	1	1	3	11	22	4	3	2
Expenditures/GDP				(1973)								(1987)
Private consumption	81	61	61	55	51	47	70	67	73	68	64	61
Gov. consumption	9	10	10	16	17	14	8	8	9	12	12	11
Gross investment	14	21	26	24	32	29	21	31	17	26	27	28
Exports	13	31	26	42	58	67	19	20	24	17	25	34
Imports	-16	-22	-23	-36	-55	-57	-19	-26	-24	-22	-30	-36

Notes: Data source is Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (various issues). Sectoral GDP for Malaysia in 1980 and 1987 is obtained by calculation based on real values at constant 1978 prices due to the lack of nominal data. Expenditure shares for the Philippines and Thailand do not add up to one due to statistical discrepancies. SITC is the abbreviation of Standard International Trade Classification, where SITC 0=food and live animals, SITC 1=beverages and tobacco, SITC 2=crude materials, SITC 3=mineral fuels, SITC 4=animal and vegetable oils and fats, SITC 5=chemicals and related products, SITC 6=manufactured goods classified chiefly by materials, SITC 7=machinery and transport equipment, SITC 8=miscellaneous manufactured articles, and SITC 9=commodities and transactions not classified elsewhere.



— Real GDP ... Real price index of primary commodities

Fig. 1 Rate of Growth of GDP (%) versus Rate of Changes in Primary Commodity Prices (10%)

expected. Its correlation coefficients are about 0.6 for both the 1970s and 1980s. Correlation coefficients indicate bilateral relations but not causal ones. However, we may be able to interpret the results in a causal way from price changes to economic growth since primary commodity prices are, in general, an external exogenous factor to each of the ASEAN4 countries.

Primary commodity prices are strongly

correlated with world income or world demand, which is also an important external exogenous factor to ASEAN4. Taking changes in these two exogenous factors as external shocks on the balance of payments, Table 4 evaluates these shocks quantitatively by decomposing them into four policy responses or adjustments, through which the shocks are absorbed, for the four countries of ASEAN4, selected NICs, and Japan. Note that real (i.e., relative) prices of

Table 4 External Shocks and Policy Responses

(%)

	Balance of Payments Effects			Policy Responses or Adjustments			
	Terms of trade effects	Export volume effects	Total external shocks	Increase in export market share	Import substitution	Reduction in imports through lower GDP growth	Added external finance
Indonesia							
(A) 1974-82	83.6	16.4	100.0 [23.6]	2.3	-1.1	0.5	-101.7
(B) 1974-83	113.0	-13.0	100.0 [13.2]	17.0	-20.0	4.0	-101.0
Malaysia							
(A) 1974-82	71.6	28.4	100.0 [6.4]	39.9	-25.4	4.3	-118.8
Philippines							
(A) 1974-82	-75.1	-24.9	100.0 [-14.5]	17.5	2.3	-2.6	82.9
(B) 1974-83	-76.7	-23.3	100.0 [-18.6]	0.0	0.2	0.4	99.2
Thailand							
(A) 1974-82	-90.1	-9.9	100.0 [-15.2]	25.5	8.6	2.6	63.4
(B) 1974-83	-73.4	-26.6	100.0 [-12.0]	16.1	26.1	2.4	55.4
Singapore							
(A) 1974-82	-98.1	-1.9	100.0 [-46.3]	67.0	-41.8	17.5	57.2
Korea							
(A) 1974-82	-83.2	-16.8	100.0 [-13.3]	104.5	17.1	4.6	-26.2
(B) 1974-83	-74.0	-26.0	100.0 [-6.9]	89.0	135.0	-32.0	-92.0
(C) 1973-83	-89.0	-11.0	100.0 [—]	80.0	27.0	12.0	-19.0
Taiwan							
(A) 1974-82	-43.8	-56.2	100.0 [-24.8]	132.9	16.3	13.5	-62.7
(B) 1974-83	-41.0	-59.0	100.0 [-6.5]	10.0	35.0	131.0	-76.0
Brazil							
(B) 1974-83	-82.0	-18.0	100.0 [-2.7]	15.0	67.0	-10.0	27.0
Mexico							
(B) 1974-83	-63.0	-37.0	100.0 [-1.3]	-28.0	-102.0	25.0	205.0
Japan							
(C) 1973-83	-87.0	-13.0	100.0 [—]	38.0	41.0	85.0	-64.0

Notes: See Balassa [1981] for methodology and the decomposition formula. Results (A) are derived from Naya, Kim and James [1984], while (B) from Torigoe [1986] and (C) from P. Kuznets [1985].

primary commodities are replaced by terms of trade (i.e., export prices/import prices). Note also that the analysis here covers from 1973/74 to 1982/83, which includes only the period of oil price hikes that resulted in an external bonanza for Indonesia and Malaysia but negative external shocks for the Philippines and Thailand. As to the policy responses to external shocks, Thailand's response is in striking contrast to that of the Philippines. In Thailand, world market penetration and import substitution played significant roles in the absorption of shocks, and the dependence on external borrowing was limited to one half to two-thirds of the total shocks. On the other hand, the Philippine dependence on external borrowing is 80 to 100%. The Thai behavior looks somewhat like the behavior of Korea or Taiwan, where the adjustments by world market penetration and import substitution are quite significant and large.¹²⁾

III Prospects of ASEAN4 for NIC Status

III-1. Definition of NICs (*Newly Industrializing Countries*)

Is it possible for ASEAN4 (i.e., Indonesia, Malaysia, the Philippines, and Thailand) to become NICs in the near future? Or are they already NICs? To answer this question, we must discuss first what NIC really means or what is the definition of NIC. The term "NICs" appeared first in OECD [1979], in which ten middle-income developing countries were taken

as examples of NICs, i.e., Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, Greece, Yugoslavia, Spain, and Portugal. Analyzing their rapid industrialization in the 1960s and 1970s as well as their impacts on OECD countries,¹³⁾ the report points out four characteristics which are common to these ten countries. (1) They are pursuing an outward-looking growth policy (promotion of growth by exports). (2) They are increasing their shares in world industrial production and exports. (3) Domestically, they are increasing the shares of manufacturing industry in total production, total exports and total employment. (4) They are rapidly reducing the gap in their per capita income (real GDP) vis-a-vis the industrialized countries. These are the dividing lines drawn by OECD between NICs and the other LDCs. NIC status is not, of course, regarded as constant: some countries may leave the group, while new members may enter.

Another definition has been given by Balassa [1981], when he analyzed quantitatively (as in Table 4) how the NICs coped with the first oil shock and the world recession during the period 1974-78. In the analysis, he selected as NICs the countries (1) with per capita income higher than 1,100 US dollars in 1978, and (2) with the share of manufacturing industry in GDP higher

12) Such adjustments are large enough to reduce external debts or to increase external assets. The decomposition analysis for the 1980s is interesting and seems to be especially important for Indonesia and Malaysia, which faced severe external shocks caused by drastic declines in oil and other primary commodity prices.

13) The OECD report of 1979 analyzes the development of NICs from the point of view of the challenge and menace to OECD countries in production and employment. The report, however, reaches the conclusion that OECD gained more than it lost due to positive effects of interdependence. On the other hand, an interesting point in the recent report (OECD [1988]) is the analysis based on the theories of dynamic comparative advantage and product cycle that the challenge of NICs is caused partly by OECD itself through direct foreign investment.

Table 5 Comparisons of Per Capita GDP: ASEAN4 versus NICs

Comparison by ER (exchange rate)	(US\$ in current prices)				(Growth rates, %)	
	1970	1978	1980	1985	1988	1970-80 1980-85
Indonesia	75	257	490	509	459	20.6 0.8
Malaysia	318	1,185	1,718	1,953	1,962	18.4 2.6
Philippines	200	530	732	599	660	13.9 -3.9
Thailand	180	520	720	745	1,065	14.9 0.7
Singapore	915	3,319	4,701	8,529		17.8 12.7
Korea	266	1,287	1,531	1,980		19.1 5.3
Taiwan	384	1,528	2,252	3,027		19.4 6.1
Brazil	456	1,798	2,059	1,733		16.3 -3.4
Mexico	722	1,563	2,685	2,247		14.0 -3.5
Greece	1,130	3,352	4,174	3,357		14.0 -4.3
Spain	1,090	3,994	5,679	4,344		17.9 -5.2
Comparison by PPP (purchasing power)	(I\$ in current prices)				(Growth rates, %)	
	1970	1978	1980	1985	1988	1970-80 1980-85
Indonesia (US=100)	315(6)	829(8)	1,096(9)	1,585(10)	1,900(10)	13.3 7.7
Malaysia (US=100)	705(15)	2,186(23)	3,112(27)	4,050(25)	4,710(25)	16.0 5.4
Philippines (US=100)	572(12)	1,228(13)	1,551(14)	1,710(11)	1,966(10)	10.5 2.0
Thailand (US=100)	550(11)	1,322(14)	1,694(15)	2,310(14)	3,004(16)	11.9 6.4
Singapore (US=100)	1,557(32)	4,312(45)	5,817(51)	11,183(70)		14.1 14.0
Korea (US=100)	606(13)	2,076(22)	2,369(21)	3,734(23)		14.6 9.5
Taiwan (US=100)	770(16)	2,233(23)	2,921(26)	4,422(28)		14.3 8.6
Brazil (US=100)	885(18)	2,544(26)	3,356(29)	3,979(25)		14.3 3.5
Mexico (US=100)	1,517(31)	3,084(32)	4,333(38)	4,739(30)		11.1 1.8
Greece (US=100)	1,478(31)	3,565(37)	4,383(38)	5,703(36)		11.5 5.4
Spain (US=100)	2,261(47)	4,777(50)	6,131(54)	7,879(49)		10.5 5.1
Comparison by PPP (purchasing power)	(I\$ at constant 1980 prices)				(Growth rates, %)	
	1970	1978	1980	1985	1988	1970-80 1980-85
Indonesia	643	983	1,096	1,223	1,341	5.5 2.2
Malaysia	1,525	2,717	3,112	3,415	3,630	7.4 1.9
Philippines	1,094	1,468	1,551	1,361	1,432	3.6 -2.6
Thailand	1,063	1,590	1,694	1,900	2,262	4.8 2.3
Singapore	2,869	4,986	5,817	9,834		7.3 11.1
Korea	1,189	2,411	2,369	3,056		7.1 5.2
Taiwan	1,514	2,635	2,921	3,581		6.8 4.2
Brazil	1,782	3,030	3,356	3,282		6.5 -0.4
Mexico	3,063	3,822	4,333	3,985		3.5 -1.7
Greece	2,952	4,262	4,383	4,464		4.0 0.4
Spain	4,379	5,682	6,131	6,437		3.4 1.0

Notes: I\$ (international dollar) is a theoretical concept used in multi-country comparison of purchasing power parity (PPP). Its conversion rate with US\$ is one (1.0) for the benchmark year. PPP-related data are derived from Summers and Heston [1988]. Data for Indonesia are extrapolated by using GDP deflators and real GDP growth based on the 1980 PPP compiled by UNCEC [1986]. Data for other ASEAN countries in 1987 are also extrapolated similarly based on the 1985 PPPs.

than 20% in 1977. Though his terminology is not NICs but NIDCs (Newly-Industrializing Developing Countries) and his selection of countries is a little different from that of OECD [1979], his definition seems worth considering here.

III-2. Current Situation of ASEAN4

Key indicators for ASEAN4 corresponding to the definitions of NICs by OECD and Balassa above are summarized in Tables 5 and 6, which allow consistent comparisons between the four countries of ASEAN and most of the NICs in

Table 6 Comparison of Production and Export Structures: ASEAN4 versus NICs (%)

	Shares of manufacturing in total production (GDP)		Shares of industry in total production (GDP)		Shares of industry in total employment	
	1978	1988	1978	1988	1978	1981
Indonesia	9	19	33	36	11	12
Malaysia	17	19*	32	35*	16	16
Philippines	25	25	35	34	16	17
Thailand	18	24	27	35	8	9
Singapore	26	30	35	38	38	39
Korea	24	32	36	43	37	29
Taiwan	38	—	48	—	37	—
Brazil	28	29	37	43	22	24
Mexico	28	26	37	35	26	26
Greece	19	18	31	29	28	28
Spain	30	27	38	37	43	40

	Shares of manufacturing goods in total exports		Shares of textiles and clothing		Shares of machinery and transport equipment	
	1977	1988	1977	1988	1977	1988
Indonesia	2	29	0	8	1	1
Malaysia	17	45	2	4	7	26
Philippines	25	62	5	7	2	10
Thailand	19	52	8	17	2	11
Singapore	44	75	5	5	24	47
Korea	85	93	32	22	17	39
Taiwan	49	—	23	—	3	—
Brazil	26	48	4	3	11	18
Mexico	29	55	4	2	6	33
Greece	50	55	18	31	5	3
Spain	71	73	6	4	26	34

Notes: * on Malaysian GDP indicates 1984 figures. Data for 1988 are derived from the 1990 issue of World Bank's *World Development Report*, those for 1977 or 1978 from the 1980 issue, and those for 1981 on labor from the 1985 issue.

the 1979 OECD report. Let us first examine the three sets of data on per capita GDP in Table 5. In terms of the nominal per capita GDP in US dollars converted by use of the current exchange rates for each year, Malaysia is notable in that by 1978 its per capita GDP already exceeded US\$ 1,100. As mentioned in section II, the exchange rate conversion is misleading in the case of international comparison since it does not reflect purchasing power parity correctly. The exchange rate is also not useful for comparison over time, since it changes frequently. In fact, the exchange rate is devalued in most of the countries that experienced zero or minus growth in nominal per capita GDP in the first half of the 1980s.

The middle part of Table 5 shows nominal per capita GDP in I\$ (international dollars) converted by use of purchasing power parities for each year. This unit should be used in the multi-country comparison of purchasing power parities. Its conversion rate with the US\$ is one (1.0), and it depreciates over time in the case of world inflation. The 1988 data for ASEAN4 are estimated approximately for reference purposes. Correct international comparison is possible at least for each year based on the data in the middle part of Table 5. In 1978, for example, NICs with relatively low income included Korea (whose per capita income was 22 relative to the US taken as 100), Taiwan (23) and Brazil (26). Again, Malaysia (23) attained a comparable level with those countries. Thailand (14), the Philippines (13), and Indonesia (8) were far from Korea and Taiwan. In 1988, the positions of Thailand (16) and Indonesia (10) remained virtually unchanged vis-a-vis the United States, but that of the Philippines (10) had decreased significantly (due

to the debt crisis and its aftermath from 1983 to 1985), becoming closer to that of Indonesia.

The lower part of Table 5 shows real per capita GDP in international dollars (I\$) at constant 1980 prices. These data allow consistent comparisons both internationally and over time. In other words, the absolute level of income of some country in some year can be compared directly with those of other countries in other years. For example, Korean per capita GDP in 1978 was I\$ 2,411 (at constant 1980 prices), while Thai per capita GDP reached I\$ 2,262 (at constant 1980 prices), more than 90% of the Korean level in 1978, in 1988. In the case of Malaysia, its per capita GDP in 1988 (I\$ 3,630) was higher than that of Taiwan in 1985 (I\$ 3,581) and far higher than those of Korea and Brazil in 1985 (I\$ 3,056 and I\$ 3,282, respectively). As far as income level is concerned, therefore, Thailand is standing at the threshold of becoming a NIC, while Malaysia is standing shoulder to shoulder with some of the NICs. Indonesia and the Philippines in 1988 attained almost the same level as Korea and Taiwan in 1970 or a little more than one-half of the level of two countries in 1978. It will take thirteen years (i.e., from 1988 to 2001) for the Philippines to attain the Korean income level of 1978, provided that target GDP growth of 6.5% and average population growth of 2.5% are realized. The situation is more or less the same for Indonesia.

Let us next compare the structure of production, employment and exports between ASEAN4 in recent years and NICs around 1978 (See Table 6). The dividing line between NICs and other LDCs, according to Balassa's definition, is a 20% share of the manufacturing sector in total GDP. Table 6 shows that all of the

ASEAN4 except Indonesia had passed this line by 1988 (see Table 3 for Malaysia where the share in real terms was 24% in 1988). In the share of industrial sectors, including mining, construction, and public utilities, all of the ASEAN4 attained the level of Spain or Mexico in 1988. And in the share of manufacturing goods in total exports, all of the ASEAN4 except Indonesia were at least at the level of Brazil in 1988 or the level of Singapore and Taiwan in 1977. The problem here is the employment structure. The share of industrial employment is far smaller in ASEAN4 than in NICs. Though the employment data in Table 6 are only for 1981, the employment structure of ASEAN4 may be said to have remained almost unchanged between 1981 and 1988 (or 1987), judging from the data on manufacturing employment in Table 3.¹⁴⁾ ASEAN4 clearly lag behind NICs in the employment structure aspect of industrialization. This is especially true of labor absorption by manufacturing industry.

Having conducted a quantitative investigation of the current situation of ASEAN4 in terms of the definition of NICs given by OECD [1979] and Balassa [1981], there still remain three points to be discussed in relation with the definition of NICs. The first point is the share of manufacturing industry in both world production and exports. It is difficult or misleading to compare production internationally due to frequent changes in exchange rates, but the comparison of exports is easier because data on exports are available in US dollars. A rough calculation based on World Bank's *World Development Report* confirms that each of the

ASEAN4 countries increased its share in world manufacturing exports rapidly from 1978 to 1986 (though the level is still very low).¹⁵⁾ The second point is whether or not the ASEAN4 countries are adopting an outward-looking policy for growth. The answer is probably yes. All of the ASEAN4 countries changed their industrialization strategy by adding "export promotion" to "import substitution" around 1970 (or the early 1980s in the case of Indonesia) as mentioned in section II. Such outward-looking policies also continued during the period of structural adjustment in the 1980s. The problem, however, is which was dominant in each country, the outward-looking policy of export promotion or the inward-looking policy of import substitution. The third point is whether the income gap vis-a-vis the industrialized countries is being rapidly reduced. Table 2 reveals that per capita GDP growth in the 1980s (1980-88) was significantly higher only in Thailand than in the industrial economies: 3.0% for Indonesia, 2.0% for Malaysia, -2.4% for the Philippines and 4.1% for Thailand, compared to 2.1% for the industrial economies. Furthermore, growth rates in Thailand have accelerated remarkably in recent years (1987-89), as will be discussed later.

The conclusion to which the discussions so far lead is as follows. As far as the static quantitative criteria are concerned, it will not be

14) The only exception is Malaysia, where the share increased to 22% in 1987, which is nevertheless as low as that of Mexico in 1978.

15) The following approximate shares are obtained by combining the data of 1980 and 1988 issues of *World Development Report*:

	Total exports		Manufacturing exports	
	(1978)	(1986)	(1978)	(1986)
Indonesia	1.02%	0.78%	0.03%	0.24%
Malaysia	0.65	0.73	0.18	0.37
Philippines	0.30	0.25	0.12	0.21
Thailand	0.36	0.46	0.11	0.27

surprising if Malaysia were classified as a NIC. When industrialization of its employment structure progresses further, it will be more reasonable to classify Malaysia as a NIC, but it remains uncertain whether Malaysia will reduce its income gap *rapidly* vis-a-vis the industrial economies. Thailand is now standing at the threshold to becoming a NIC. However, its employment structure lags seriously behind other aspects of industrialization. Promotion of labor absorption in the manufacturing industry is the most crucial problem for Thailand in becoming a NIC. Indonesia and the Philippines seem unlikely to approach NIC status for at least ten years. Indonesia is in the process of structural adjustment towards a less oil-dependent economy, while the Philippines is also adjusting its economic structure with a view to achieving recovery and sustained growth following the debt crisis and its aftermath.

IV Outlook for the Thai Economy

An important feature of Thai economic development is its steady and stable growth in the postwar period. As Fig. 1 shows, GDP growth has neither become negative since 1960, nor has it fallen drastically, even during the world recession of the early 1980s. The stability and relatively high growth rates of Thai economic growth make it conspicuous among those of the ASEAN4 countries and comparable rather with Japanese economic growth. The stable growth may be explained first by the conservative behavior or orientation toward stability of Thai government, which traditionally attaches importance to equilibrium in government budget and external balance rather than to economic

development.¹⁶⁾ The "built-in-stabilizer" in the Thai economy, namely the diversification and drastic change of Thai exports, is also an important explanatory factor of its stable growth.

Another important feature of Thai economic development, whether agricultural or industrial, is that it has been led by the private sector. Thai agriculture in the postwar period has a history of continuous crop change and diversification, adding sugar and maize to the traditional rice and rubber of the 1950s, adding tapioca in the 1960s, restoring sugar in the 1970s, and so on. This dynamic adjustment was borne mainly by Thai farmers, who responded smartly to prices of inputs and outputs and other market opportunities. Middlemen played an important role in bringing market information to farmers, while government mostly followed the farmers.¹⁷⁾ Thai industrialization, on the other hand, was initiated by government under the "State Enterprises Act" of 1953 and the "Industry Promotion Act" of 1954, which caused state enterprises to proliferate in every field of economic activity from manufacturing to commerce, banking and service industries. The change in government in 1958 from prime minister Phibun to Sarit, however, brought a radical change in development strategy from government-led industrialization to that led by the private sector. Emphasizing private capital, direct foreign investment and development planning as three major factors in development management, the government began to pursue industrialization under the new principle of divi-

16) See Warin and Ikemoto [1988: Chs. 1 & 2 by Ikemoto] for details on stable growth and conservative government policies.

17) See Ammar Siamwalla [1990], Harada [1988], etc.

sion of labor between government and the private sector, which assigned only such infrastructural activities as transportation, communication, tourism and national defense to the government sector, leaving ordinary economic activities to market mechanisms and the private sector. This principle has basically been maintained throughout the stages of import substitution and export promotion from the 1960s to the present.¹⁸⁾

One problem (or, in a sense, merit) of Thai industrialization lies in the fact that the employment share of manufacturing industry did not rise in line with the production share of that industry. In other words, the manufacturing industry, which produces more than 20% of the GDP, employs less than 10% of total labor, while the agricultural sector, which employs almost 70% of total labor, produces less than 20% of GDP (See Table 3). This implies low levels of productivity and income in the agricultural sector relative to other sectors. It may also be interpreted as a sacrifice made by agricultural sector for the sake of other sectors by maintaining a vast amount of underemployed labor in rural areas. In Thailand, the problem of income distribution has been one of the most important issues to be resolved since the third five-year economic plan (1972-76), and the government has actively implemented various policy measures, such as promotion of rural industries, regional dispersion of industrial locations, and assistance to small-scale industries, in order to reduce the income gap between rural and urban areas and also between regions. The main purpose of these policy measures may be said to be to promote the absorption of

surplus or low-income labor from agriculture by non-agricultural sectors, especially the manufacturing industry.

This problem is related to a new concept in development strategy, namely, NAIC (Newly Agro-Industrializing Country), which refers to an export-oriented country whose economy centers on agriculture, fishery and livestock, and their processing (i.e., agro-industry). Thailand has succeeded in diversifying its agricultural production for export, and is now a major food-exporting country. But NAIC strategy seeks more value added by further industrialization in exports. This strategy seems to be suitable for the Thai economy which still maintains a huge rural population, reflecting the Thai character of conservative economic management aiming at slow but steady progress. The NAIC strategy, however, should probably be regarded as transitional and partial, since agro-industries have only weak linkages with other industries and their impacts on technology accumulation are relatively small. The sixth economic plan (1987-91) emphasizes the machinery industry as being strategic, as well as agro-industry. The Thai government seems to have in mind both NAIC status in the short run and NIC status in the medium or long run.¹⁹⁾

19) According to the former planning minister (See Snoh Unakul *et al.* [1990]), Thailand has several alternatives for her future development path. One is as a NIC, and another is as a NAIC. The third is as a NAISE (Newly Agro-Industrializing Service Economy), which allows also for a leading role by the service sector in growth. All of the three are possible alternatives, but each carries with it new challenges and new problems. In the case of NIC, for example, the development goal of Thailand is to be a healthy NIC which promises a better life with better income distribution and better environmental conditions, but not just a NIC faced with many problems.

18) See, for example, Suehiro and Yasuda [1987].

The Thai economy has been growing steadily since the trough in 1985. Its growth rate in terms of GDP was 9.5% in 1987, 13.2% in 1988 and 11.7% in 1989 (and more than 10% growth is expected again for 1990). This rapid growth was led mainly by exports and investment expansion, behind which lie both external and internal factors. The external factors are: (1) dollar depreciation, which also means baht depreciation; (2) the oil price decline since 1986, (3) the decline in international interest rates, (4) rising cost pressure in Asian NICs, and (5) direct foreign investment in export-oriented projects from Japan and Taiwan. The domestic factors are: (1) development of a wide range of manufacturing industries consistent with Thai comparative advantages, and (2) sound macroeconomic management and political stability.²⁰⁾ The most conspicuous factor may be said to be direct foreign investment, as in the case of the Malaysian economy. *Applied* amounts of foreign investment in Thailand increased by 67% in 1986, by 360% (i.e., 4.6 times) in 1987, and by 140% (i.e., 2.4 times) in 1988. The total amount of *applied* foreign investment is 394 billion bahts (!) in 1988 (according to BOI data, but only 28 billion bahts according to BOT data for net direct foreign investment). Among foreign investors, Japan is dominant in value, followed by Taiwan. Japanese investment covers a wide range of industries, such as electric appliances, electronics, transportation equipment, metal products, textiles, and agricultural and fishery products. Furthermore, three-quarters of its applications were export-oriented ones with export ratios ranging from 80% to 100%. Taiwanese invest-

ment, on the other hand, concentrates on labor intensive, export-oriented, light-industry products such as sports goods, shoes, and bags, in which Taiwan has lost its international competitiveness. It must be noted that these direct foreign investments are now shifting from Bangkok to remote prefectures in accordance with the changing investment incentives, by which the Thai government is attempting to avoid excessive concentration in the Bangkok area and to realize balanced development between regions.²¹⁾

Manufacturing industry surpassed the agricultural sector (to be more precise, the primary sector) in terms of production in 1984 and in terms of exports in 1987. As to the structure of employment, agricultural labor maintained a constant share of around 70% until 1984, which began to decrease from 1985 and is now a little over 60%. The foreign investment boom in recent years will surely accelerate this decline. Indeed, a symptom of labor shortage has already been observed by the World Bank. Accelerated growth in recent years will rapidly reduce the income gap vis-a-vis the industrialized countries. The Thai economy seems to be moving dynamically toward NIC status, having passed, as it were, the 'turning point' in the theory of dualistic development.^{22),23)}

21) Data above are obtained mainly from JETRO [1989; 1990].

22) Warr and Bandid [1987] review eighty articles by the Thai authors on the Thai economy published up to the year 1986. The consensus among these Thai economists (until 1986) was that "Thailand is definitely not a NIC, even a near-NIC."

23) Snoh Unakul *et al.* [1990] investigates the NIC status for Thailand based mainly on Balassa's definition, allowing for the following four criteria: (1) minimum real per capita GNP (at the 1988 ↗

20) See World Bank [1989] for details.

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price) of US\$1,810 which corresponds to US\$1,100 in 1978; (2) share of manufacturing products to GNP; (3) share of manufactured exports to merchandise exports; and (4) share of manufacturing labor to total employment. They conclude that of these criteria have been met the second and third already. The first will be met by the end of the Seventh Economic and Social Development Plan (1992-96), provided that the target GNP growth of 8.4% and the average population growth of 1.5% are realized. As to the fourth criterion, the labor share in the agricultural sector is projected to fall to 40% by the end of 1998 if Thailand follows the same development pattern as Korea, under two complementary factors: (1) the ability to extend both industrial factories and the service sector to rural regions more rapidly, and (2) the successful implementation of the minimum educational level required by law, from the elementary level to the lower secondary level. Problems and limitations which Thailand faces in attaining NIC status are: infrastructure (utilities, transportation, water for industry, science and engineering personnel, etc.), government policies (exchange rate, tax, price control, etc.), cultural attitudes (hard versus soft states), low saving (producer versus consumer societies), and research and development (technological capabilities, etc.). See also footnote 19).

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